HOUSING MARKET OUTLOOK

Ottawa*

CANADA MORTGAGE AND HOUSING CORPORATION

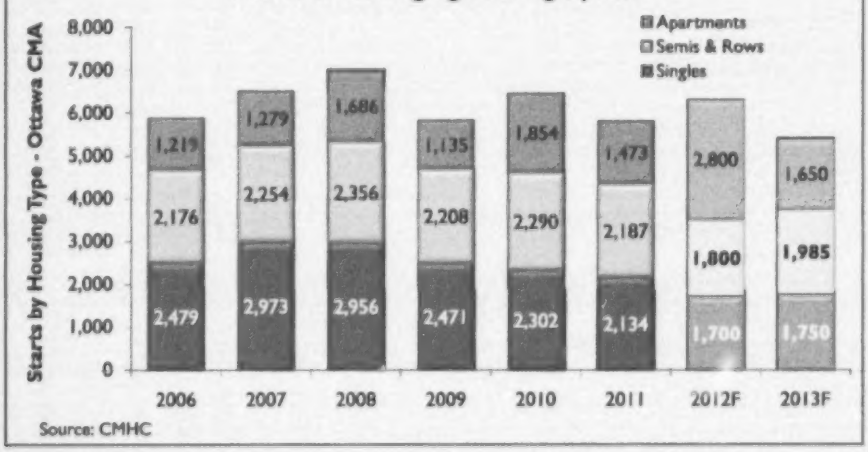
Date Released: Fall 2012

Market at a Glance

- New home construction and resale activity will slow into the first half of next year, setting the stage for an improvement during the second half of 2013.
- On an annual basis, home starts are set to increase by 8.7 per cent this year, before moderating by almost 15 per cent to 5,385 units in 2013.
- MLS sales will total 14,000 homes in 2013 and price growth will slow to 0.8 per cent.
- Ottawa employment growth will remain modest in the short term before showing more strength during the second half of 2013.

Figure 1

Housing Starts Consistent with the Wants of Changing Demographics



Source: CMHC

*Ontario part of Ottawa-Gatineau CMA

The forecasts included in this document are based on information available as of October 17, 2012.

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Resale Home Market

The number of existing home sales in the Ottawa CMA will decline slightly by 1.7 per cent in 2012 and is anticipated to further decline by 2.1 per cent in 2013. However, over the forecast horizon the Ottawa sales story does vary. In the immediate term, modest job growth and tighter mortgage market conditions will exert downward pressure on housing demand. While new mortgage rules introduced in July will have a stabilizing effect on the housing market longer term, the new rules will moderate sales slightly in the short run.

Tighter mortgage rules combined with high home prices will continue to limit first time buyer demand. While some buyers will be able to substitute into a lower priced home, others will likely postpone their home purchase decision. However, a gradual improvement in job and income growth during the latter part of next year, combined with modest price increases should support Ottawa resale activity by the second half of 2013.

Ottawa income growth has not kept pace with home price growth in recent years. According to the latest CMHC calculation, required income to buy an average resale home in Ottawa relative to actual income illustrates that housing has generally become more expensive in recent years. However by the second half of 2013 incomes will be growing much faster than prices – supporting demand for housing.

Figure 2

Source: Ottawa Real Estate Board; CMHC Forecast
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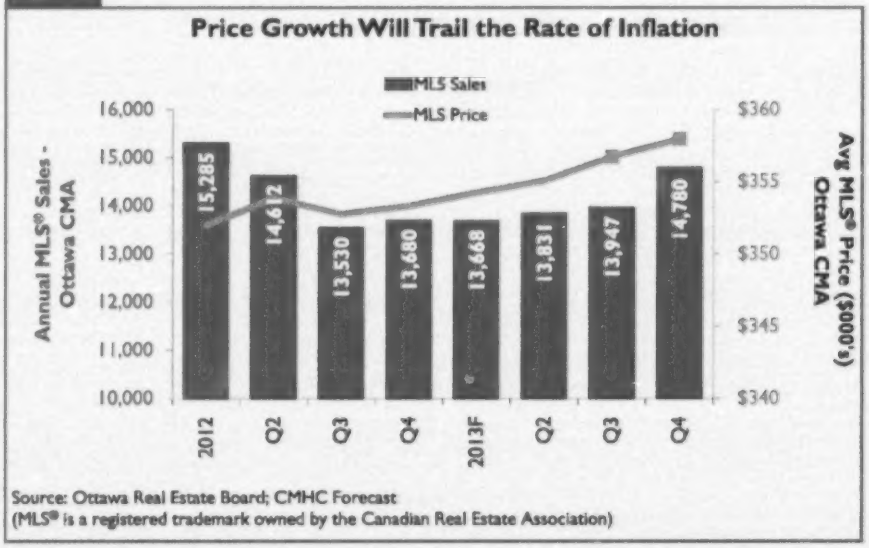
A strong increase of 7.1 per cent in listings in 2012 has bolstered the inventory of homes in the marketplace. High home prices have encouraged vendors to list their homes for sale. Listings will remain at a high level of over 26,000 units next year. As a result, the seasonally adjusted sales to new listings ratio, which measures the balance between demand and supply, will ensure Ottawa's resale market remains balanced over the forecast horizon.

The average price of a resale home increased by 2.4 per cent in 2012 and is forecast to increase by only 0.8 per cent in 2013. As inventories continue to grow, the downward pressure on prices will become apparent. In 2013, it is expected that price growth will trail the rate of inflation. This is a

Figure 3



Source: Ottawa Real Estate Board; CMHC Forecast
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significant deviation from the near-term trend, which has seen the rate of price growth exceed the rate of inflation.

Rental Market to tighten

The rising cost of ownership housing in recent years will support rental demand and help keep vacancy rates near low levels. Strong rental demand has pushed rents higher. The average rent of a two-bedroom apartment rose 4.1 per cent from 2011. Worthy of note is that the average rent of a two-bedroom apartment is up 13.5 per cent since 2008. This rate of increase is expected to moderate to 2.7 per cent in 2013. High home prices and tighter mortgage rules now in place, may encourage some potential first time buyers to rent rather than purchase in the immediate term.

New Home Market

A notable change in the make-up of the new home market

As the tastes of the Canadian consumer continue to transition towards higher density communities and multi-unit dwellings, builders continue to modify their product offerings towards multi-unit buildings. 2012 saw a dramatic transition towards the construction of multi-unit homes and away from single-family homes. Total new home starts will increase by 8.7 per cent in 2012, but are expected to decrease in 2013 by 14.5 per cent. This projected decline for 2013 can be associated with the general transition to a more balanced marketplace in conjunction with the movement back to construction levels consistent with demographic demand.

This year, the construction of new single-family homes will decline by over 20 per cent, while the number of new apartments will increase by 90 per cent. Consistent with the emerging socioeconomic and demographic trends, CMHC forecasts new homebuyers to continue sustaining higher-density and more affordable housing choices. Worthy of note is that the average price of a new single-detached home increased by 1.6 per cent in 2012 to $486,000, and is anticipated to grow by a further 0.8 per cent in 2013.

2012 and 2013 will mark the first period in 15 years where single-family housing starts are less than 2000 units. This level of starts, however, still constitutes 27 per cent of all new home starts in 2012. Multiple-unit dwellings comprise the other 73 per cent and of those, apartments make up the largest group at 2,800 new units in 2012. Nevertheless, while multi-family construction continues to capture a dominant share of construction, some moderation is expected in 2013 given the high number of apartment units under construction.

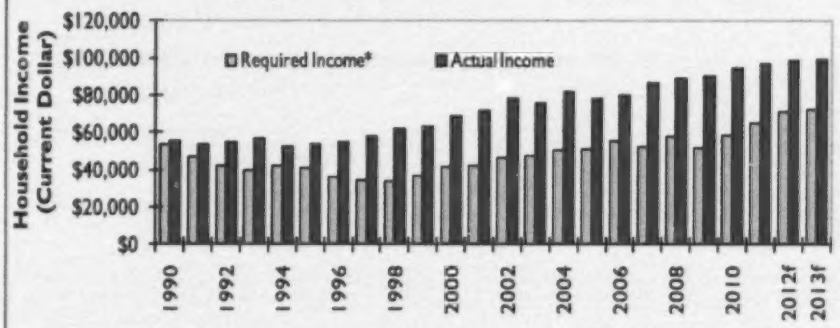
The majority of this apartment growth has occurred in the downtown core and aims to attract young professionals looking to work downtown and retired baby-boomers looking to downsize and transition to less maintenance intensive living arrangements. The increasing popularity of condominium apartments will continue capturing investor's interest, given low vacancy rates and modest growth in purpose-build rental construction.

Economic Overview

Ottawa's job growth will be modest in 2013 versus historic norms. Continued economic uncertainty has placed downward pressure on economic growth forecasts. The fiscal positions of the provincial and federal

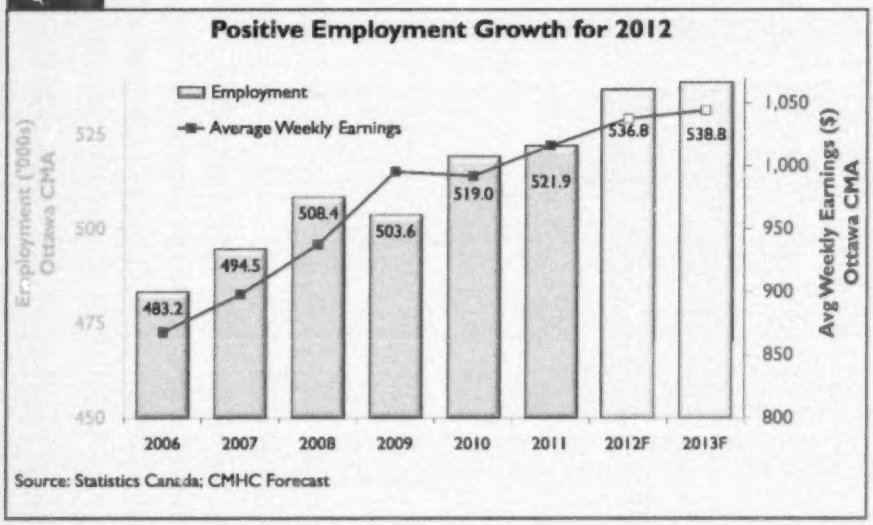
Figure 4

Ottawa Required vs Actual Income



Sources: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

Figure 5



governments will remain a key issue for the local economy which relies on public sector job creation. While the public sector will contribute less to overall growth in the local economy, Ottawa's unemployment rate will continue to be lower than both the Provincial and National averages.

The unemployment rate for the Ottawa region will jump in 2012 to 6.1 per cent from 5.6 per cent in 2011. It is expected to continue ascending to 6.3 per cent in 2013. Despite the fact the annual level of employment for the region grew by 2.8 per cent, the labour force grew at a higher rate as many individuals decided to return to the labour market.

Net Migration to the region continues to be strong as the region added 10,000 new residents and is forecast to add 9000 more in 2013. Worthy of note is that Ottawa's recent immigrants continue to be on average more educated than their previous immigrant counterparts. This education and associated skills will allow them to perform well in an evolving labour market and to compete for well paying jobs and, therefore, will provide a boost to the homeownership market.

Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Ottawa CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	14,923	14,586	14,551	14,300	-1.7	14,000	-2.1
MLS® New Listings	22,290	25,061	25,949	27,800	7.1	26,100	-6.1
MLS® Average Price ($)	304,801	328,439	344,791	353,000	2.4	356,000	0.8
New Home Market							
Starts:							
Single-Detached	2,471	2,302	2,134	1,700	-20.3	1,750	2.9
Multiples	3,343	4,144	3,660	4,600	25.7	3,635	-21.0
Semi-Detached	299	362	361	250	-30.7	285	14.0
Row/Townhouse	1,909	1,928	1,826	1,550	-15.1	1,700	9.7
Apartments	1,135	1,854	1,473	2,800	90.1	1,650	-41.1
Starts - Total	5,814	6,446	5,794	6,300	8.7	5,385	-14.5
Average Price ($):							
Single-Detached	406,647	431,729	478,292	486,000	1.6	490,000	0.8
Semi-Detached	458,781	397,907	425,223	-	n/a	-	n/a
Median Price ($):							
Single-Detached	382,900	419,990	455,990	460,000	0.9	465,000	1.1
Semi-Detached	425,000	337,400	352,900	-	n/a	-	n/a
New Housing Price Index (% chg) (Ottawa-Gatineau)	1.5	4.0	3.0	2.4	-	2.0	-
Rental Market							
October Vacancy Rate (%)	1.5	1.6	1.4	1.1	-0.3	1.0	-0.1
Two-bedroom Average Rent (October) ($)	1,028	1,048	1,086	1,130	4.1	1,160	2.7
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	503,600	519,000	521,900	536,750	2.8	538,750	0.4
Employment Growth (%)	-1.3	3.1	0.6	2.8	-	0.4	-
Unemployment rate (%)	5.6	6.5	5.6	6.1	-	6.3	-
Net Migration	9,482	9,964	10,587	10,000	-5.5	9,000	-10.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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